

Brad T. Hunsicker  
(Wyo. State Bar No. 7-4579)  
WINSHIP & WINSHIP, P.C.  
100 North Center Street, Sixth Floor  
PO Box 548  
Casper, WY 82602  
307-234-8991

**IN THE UNITED STATES BANKRUPTCY COURT  
FOR THE DISTRICT OF WYOMING**

In re:

RED EAGLE OIL, INC.

Debtor.

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Case No. 11-20857  
CHAPTER 11

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**AFFIDAVIT OF BRYAN HINZE IN SUPPORT OF CASH COLLATERAL MOTION**

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Bryan Hinze, of full age, being duly sworn according to law, upon his oath, deposes and states:

1. I am the Vice-President of Red Eagle Oil, Inc. ("REO"). As such, I am familiar with REO's day-to-day operations, business affairs and records, and am authorized to make this Affidavit on REO's behalf.

2. On August 1, 2011 (the "Petition Date"), REO filed a voluntary Chapter 11 petition in the United States Bankruptcy Court for the District of Wyoming. Since the Petition Date, REO has remained in possession of its assets and has continued management of its businesses, pursuant to §§ 1107 and 1108 of the Bankruptcy Code.

3. To avoid the potentially disruptive impact that commencement of this Chapter 11 case might have on REO's ability to continue operating, and to facilitate the orderly transition into Chapter 11, REO has requested the Court to consider, on an expedited basis, the motion for an order pursuant to § 363(c) and Fed.R.Bankr.P. 4001, authorizing REO to use cash collateral and provide adequate protection. REO is also requesting the Court to consider other motions as well, but using cash collateral is of most importance at this time.

4. The purpose of the cash collateral motion includes, among other things, to (a) insure REO's ability to continue in the ordinary course; (b) ease REO's transition into Chapter 11; (c) maintain and bolster employee morale so as to reduce attrition of the staff; (d) allow for the efficient and orderly administration of REO's case; (e) allow for the continuation of the business without interruption; and, (f) provide REO with a "breathing spell" from aggressive creditor action while REO evaluates its alternatives, pursues strategic alliances, refinancing, and/or new investors, all towards the goal of filing a Chapter 11 plan of reorganization. The cash collateral motion is crucial to REO's reorganization, and more important, the preservation of REO's estate and assets.

5. This Affidavit is intended to describe the circumstances precipitating REO's Chapter 11 proceeding and to provide general information about REO and its business operations that are germane to the cash collateral motion. The factual statements in this Affidavit are based on my personal knowledge, information supplied to me by others under my supervision, my review of relevant documents, and/or my opinions based on my experience and knowledge of REO's operations, financial condition and industry in general.

#### **General Overview of REO's Business**

6. REO was formally known as Hinze, Inc. For the sake of simplicity, the corporation will be referred to as REO. REO currently owns the "operation" portion of fifteen (15) convenience stores in Wyoming. REO only owns the land and buildings associated with two (2) of these stores. REO also currently operates a transportation business, hauling "common freight." REO also owns a bulk plant (currently of limited use) and a wholesale plant (currently leased to Murdock Oil).

7. REO purchased its first retail convenience store in 1990 in Ralston, Wyoming. In 1992, REO purchased one (1) wholesale plant, a Texaco distributorship and three (3) additional retail convenience stores. While REO "owned" the operation portion of each store, it only owned the land and buildings associated with two (2) of these stores. The third store was owned by an outside entity

(REO leased the retail operations of the store). In 1997, the land and building associated with the third store was purchased by Red Eagle LLC (a company owned by the same shareholders as REO). REO continued to lease this store from Red Eagle LLC.

8. In 1997, REO purchased its first fuel transport to begin selling fuel wholesale. The wholesale business began to grow, and in 1997, REO became an Exxon branded distributor.

9. In 2003, REO purchased multiple assets from Shell, consisting of the retail operations portion of multiple retail convenience stores. The land and buildings associated with these stores was purchased by Red Eagle LLC.

10. In 2003, REO became a Cenex-branded distributor. Between 1997 and 2003, REO branded multiple Exxon, Shell and Cenex retail sites. The wholesale side of REO was steadily growing, which allowed REO to purchase additional transports and trailers. As of today, the transport distribution system consists of 26 transports (tractors) and approximately 60 trailers.

11. By the end of 2004, REO had acquired the retail operations portion of fifteen (15) retail convenience stores which it still operates today. Of the fifteen (15) retail stores, REO only owned (and continues to own) the land and buildings associated with two (2) of them. The land and buildings associated with the other thirteen (13) retail stores was (and is) owned by Red Eagle LLC. In 2004, REO became more of a "common freight" transportation company, hauling condensate, crude oil and other oil field commodities. The retail side of REO did not expand after 2004, however, the wholesale (and distribution) side of the business grew exponentially, until approximately 2009, at which time the economy took a significant downturn.

12. In early 2009, REO began having difficulties collecting accounts receivable. One account in particular was significant. In an attempt to deal with this account, REO took on trade (from the entity with the outstanding account receivable) a bulk plant in Buffalo, Wyoming (in hopes that the revenue REO would realize from operating the bulk plant would replace the account

receivable it could not collect). The revenue generated from the bulk plant was not sufficient to replace the capital that would have otherwise been received had REO been paid the account receivable (the bulk plant is still operating, but on a limited basis, and is used in connection with the transportation side of the business). The downturn in the economy and the uncollectability of certain accounts receivable created a cash-flow problem. REO began factoring its other account receivables to maintain operating cash-flow as a short-term fix. The expense of factoring ultimately led to REO no longer being able to cash-flow its business. In April of 2011, REO was no longer in a position to factor its account receivables, and consequently, it did not have sufficient capital to pay its vendors. Between April and June of 2011, REO stopped distributing gas to its branded retailers. REO began purchasing fuel solely to stock the fifteen (15) retail stores. In June, the wholesale plant was leased to Murdock Oil. As of today, the few vendors still providing REO with fuel and inventory do so only on COD (cash on delivery), or on two (2) day terms. The transportation side of the business is now "common carrier" freight only, but is operating at near full capacity.

13. The culmination of these events resulted in REO being unable to satisfy its accounts payable, and ultimately, REO was sued by multiple entities. REO decided to file for Chapter 11 protection to preserve the value of the estate and its assets, and to reorganize its affairs.

#### **REO Pre-Petition Debt – Cash Collateral**

14. REO's main pre-petition lender is Pinnacle Bank (the "Bank"), who, as of the Petition Date, is owed approximately \$2,009,000.00. This Bank appears to hold a first priority lien in certain assets of REO, including inventory and accounts. As of the Petition Date, the value of inventory is estimated to be \$1,300,000.00, the value of account receivables is estimated to be \$800,000.00, and the value of deposit accounts is estimated to be \$400,000.00. Apart from these assets, the Bank also has a lien on the wholesale plant, valued at \$1,030,000.00 as of January 25, 2009, and a lien on a liquor store owned by another entity, valued at \$1,400,000.00 as of February 11, 2009. In summary

the Bank's obligation of \$2,009,000.00 is secured by first position liens on assets having an approximate value of more than \$4,000,000.00.

**REO's need for Emergent Relief**

15. REO is requesting that the Court authorize its use of (a) its cash, (b) proceeds of the pre-petition collateral, and (c) such other funds that REO obtains post-petition which may be subject to the Bank's pre-petition security interest. Without the use of cash collateral, REO will be unable to continue its business, including the collection of its accounts, preservation of its assets (including insurance, taxes and maintenance), payment of its post-petition obligations and process and complete orders from customers. Based upon the facts and reasons stated herein, I believe it is in the best interests of REO, its estate and creditors and all other parties-in-interest, that is cash collateral motion be approved.

16. In order to continually meet the above monthly obligations and maintain current inventory and accounts receivable levels, REO will require approximately \$500,000.00 of liquid cash.

17. If REO is allowed to use cash collateral up to \$500,000.00, post-petition net income for August through September 2011 is projected to be approximately \$622,238.00 (with inventory, deposit accounts and account receivables levels remaining constant – but fluctuating based on sales volume and restocking). A preliminary projected budget for August through September 2011 is attached to this Affidavit.

Dated this 3 day of August, 2011.



Bryan Hinze, Vice-President of Red Eagle Oil, Inc.

STATE OF WYOMING )  
 )ss.  
COUNTY OF Park )

Subscribed and sworn to before me by Bryan Hinze this 3<sup>rd</sup> day of August, 2011.

Witness my hand and official seal.

Colleen Riley  
Notary Public

My Commission Expires:

March 15, 2014



Red Eagle Oil, Inc.  
Red Eagle Food Stores

	August	September	October	TOTALS
<b>GALLONS SOLD</b>				
Gallons Sold - Unleaded	636,906	517,103	433,765	1,587,774
Gallons Sold - Mid-Grade	186,737	146,704	116,213	449,654
Gallons Sold - Premium	135,186	81,292	64,069	280,547
Gallons Sold - #1 Diesel	13	44	141	198
Gallons Sold - #2 Diesel	347,530	290,924	266,924	905,378
Gallons Sold - #2 Dyed	7,931	6,431	5,778	20,140
<b>TOTAL GALLONS SOLD</b>	<b>1,314,303</b>	<b>1,042,498</b>	<b>886,890</b>	<b>3,243,691</b>
<b>REVENUE</b>				
Sales-Gasoline-Unleaded	2,098,014	1,689,862	1,381,379	5,169,255
Sales-Gasoline-Mid Grade	11,615	6,846	3,686	22,147
Sales-Gasoline-Premium	629,025	417,540	323,695	1,370,260
Sales-Diesel 2 Clear	1,034,868	874,538	810,705	2,720,112
Sales-Diesel 2 Dyed	21,282	17,417	16,239	54,938
Sales-Diesel 1 Clear			358	358
Sales- Freight	376,250	388,523	402,351	1,167,124
Sales-Kerosene	52	176	154	382
Sales-Cigarettes	270,125	243,116	242,113	755,353
Sales-Other Tobacco	52,375	48,211	50,343	150,928
Sales-Beer	70,174	55,489	45,835	171,498
Sales-Wine	11,586	10,665	7,627	29,878
Sales-Liquor	32,271	29,593	25,193	87,057
Sales-Beverage	207,565	161,381	147,562	516,508
Sales-Candy	45,399	36,662	32,977	115,037
Sales-Milk	6,819	5,820	5,130	17,769
Sales-Dairy & Deli	2,922	2,513	1,952	7,387
Sales-Commissary	21,461	18,648	17,729	57,837
Sales-Ice Cream	5,539	3,387	2,546	11,472
Sales-Frozen Foods	79	90	100	269
Sales-Bread	599	465	435	1,499
Sales-Salty Snacks	36,027	30,377	26,849	93,253
Sales-Sweet Snacks	20,680	18,239	16,714	55,633
Sales-Alternative Snacks	27,843	22,001	18,921	68,765
Sales-Pershiable Grocery	153	185	116	454
Sales-Edible Grocery	11,522	6,729	9,058	27,309
Sales-Non-Edible Grocery	2,368	1,913	1,178	5,459
Sales-Health & Beauty	13,198	10,866	9,492	33,556
Sales-General Merchandise	139,111	169,481	240,462	549,054
Sales-Publications	1,436	1,072	512	3,020
Sales-Automotive Products	8,373	7,181	6,596	22,149
Sales-Automotive Services		2		2
Sales-Store Services	36,114	27,513	31,488	95,115
Sales-Ice	21,243	12,134	7,624	41,001

Sales-Food Services	20,731	18,548	19,632	58,910
Sales-Hot Beverages	18,895	18,984	19,462	57,341
Sales-Cold Beverages	29,151	24,484	20,660	74,296
Sales-Frozen Beverages	4,514	2,987	2,115	9,616
Sales-Non-Taxable items	4,516	4,103	4,652	13,271
Sales-Store Use	-1	-3	-3	-7
Sales-Game & Fish Licenses	10,505	12,606	16,617	39,728
Sales-Car Wash	7,678	5,391	4,195	17,264
Sales Discounts	-2,749	-1,741	-409	-4,899
Red Eagle Rewards	-21,695	-18,001	-21,911	-61,607
Trade Discounts	-13,343	-12,624	-10,038	-36,005
Employee Fuel Discounts	-4,746	-3,874	-3,763	-12,383
				0
TOTAL REVENUE	5,269,545	4,369,493	3,938,327	13,577,366
				0
COST OF GOODS SOLD				0
				0
COGS-Gasoline-Unleaded	1,966,249	1,565,972	1,301,781	4,834,002
COGS-Gasoline-Mid Grade	10,666	6,227	3,289	20,181
COGS-Gasoline-Premium	588,038	390,172	304,122	1,282,333
COGS-Diesel 2 Clear	968,911	831,209	791,005	2,591,125
COGS-Diesel 2 Dyed	14,304	14,849	14,696	43,849
COGS-Diesel 1 Clear	-3	3	301	301
COGS-Kerosene	40	143	129	311
COGS-Cigarettes	217,589	231,013	204,310	652,912
COGS-Other Tabacco	42,957	41,440	38,565	122,962
COGS-Beer	54,368	58,298	33,301	145,967
COGS-Wine	7,627	8,223	4,533	20,383
COGS-Liquor	21,096	23,611	15,142	59,849
COGS-Beverage	122,522	110,838	91,195	324,555
COGS-Candy	25,015	22,940	18,061	66,016
COGS-Milk	4,242	4,369	3,184	11,795
COGS-Dairy & Deli	1,690	2,284	1,138	5,113
COGS-Commissary	13,087	15,299	10,660	39,046
COGS-Ice Cream	2,669	2,855	1,239	6,762
COGS-Frozen Foods	47	196	56	299
COGS-Bread	400	606	285	1,291
COGS-Salty Snacks	21,356	19,698	15,870	56,924
COGS-Sweet Snacks	13,049	14,964	10,584	38,597
COGS-Alternative Snacks	15,657	17,523	10,584	43,764
COGS-Pershiable Grocery	92	141	68	301
COGS-Edible Grocery	6,836	-2,011	5,304	10,129
COGS-Non-Edible Grocery	1,340	1,766	673	3,779
COGS-Health & Beauty	6,786	8,062	4,819	19,668
COGS-General Merchandise	81,192	108,093	121,113	310,399
COGS-Publications	798	434	289	1,522
COGS-Automotive Products	4,836	5,024	3,769	13,629
COGS-Store Services	27,820	30,629	29,605	88,054
COGS-Ice	1,501	-92	741	2,150
COGS-Food Services	22,969	19,845	19,235	62,049
COGS-Hot Beverages	1,824	-1,508	1,703	2,019
COGS-Cold Beverages	1,086	5,918	1,278	8,282
COGS-Frozen Beverages	95	-76	67	85
COGS-Non-Taxable items	1,515	664	1,545	3,724
COGS-Service Charges	818	606	544	1,968



COGS-Store Use	15,877	10,518	9,751	36,146
COGS-Game & Fish Licenses	10,655	11,909	14,827	37,391
COGS-Car Wash Soap		200		200
Purchase Discounts	-34,947	-27,752	-23,975	-86,674
ADJ-Gasoline Unleaded	-7	101	3,163	3,257
ADJ-Gasoline Mid Grade	0	0	0	1
ADJ-Gasoline Premium	34	35	1,808	1,878
ADJ-Diesel 2 Clear	-645	698	2,454	2,507
ADJ-Diesel 2 Dyed	5,520	5	3	5,529
ADJ-Diesel 1 Clear			0	0
ADJ-Kerosene	-40	-143	-308	-490
ADJ-Cigarettes	-4,092	-3,554	-7,233	-14,879
ADJ-Other Tobacco	-537	935	-2,552	-2,154
ADJ-Beer	1,486	-13,544	286	-11,773
ADJ-Wine	1,050	-2,704	-9	-1,663
ADJ-Liquor	2,906	-6,448	70	-3,473
ADJ-Beverage	-4,317	-1,327	-420	-6,065
ADJ-Candy	-237	-530	-151	-918
ADJ-Milk	75	-326	-101	-351
ADJ-Dairy & Deli	-31	-12	-4	-47
ADJ-Commissary	-190	-190	-199	-578
ADJ-Ice Cream	-127	-27	-4	-158
ADJ-Frozen Foods	-5	0	20	15
ADJ-Bread	-4	-17	-31	-51
ADJ-Salty Snacks	-165	-257	-325	-747
ADJ-Sweet Snacks	-166	-415	-296	-877
ADJ-Alternative Snacks	-881	-928	-634	-2,443
ADJ-Perishable Grocery	5	-4	-4	-2
ADJ-Edible Grocery	-8,422	1,666	-4,175	-10,931
ADJ-Non-Edible Grocery	1	-602	-28	-630
ADJ-Health & Beauty	-91	-158	-98	-348
ADJ-General Merchandise	-913	-4,209	506	-4,616
ADJ-Publications	598	767	242	1,607
ADJ-Automotive Products	-92	-68	-13	-173
ADJ-Ice	451	909	-198	1,161
ADJ-Food Services				
ADJ-Hot Beverages	16,330	21,584	14,787	52,702
ADJ-Cold Beverages	21,878	14,302	16,012	52,193
ADJ-Frozen Beverages	3,518	1,698	1,054	6,269
ADJ-Non-Taxable items	2,427	2,215	6,291	10,933
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TOTAL COST OF GOODS SOL	4,297,988	3,564,554	3,095,299	10,957,842
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GROSS PROFIT	971,557	804,939	843,028	2,619,524
OPERATING EXPENSES				
Advertising Expense	69	905	177	1,151
Auto Expenses	775		146	921
Bad Debt Expense-A/R				0
Bad Debt Expense-NSF Checks	-36			-36
Bank Charges	376	294	476	1,145
Cash Over and Short	223	-8,716	-5,135	-13,628
Credit Card Fees	69,190	56,912	45,989	172,091
Charitable Contributions Exp	675	119	255	1,048

Depreciation Expense	18,571	14,724	14,724	48,019
Dues and Subscriptions Exp	11,099	-2,060	20,159	29,198
Equipment Lease	3,245	4,527	3,465	11,237
Extermination	275	195	195	665
Freight Expense	54	90	126	270
Insurance Employee Health	3,572	2,072	4,046	9,690
Insurance Workers' Comp.	5,030	4,889	4,951	14,870
Insurance Building	4,992	4,992	4,992	14,976
Laundry and Cleaning Exp	335	552	422	1,309
Licenses Expense		1,050	200	1,250
Loan Origination Fees	80			80
Losses/Damages	-1,981		16	-1,966
Maintenance Expense-Equip		167		167
Maintenance Exp-Equip(C-store)	3,488	844	1,216	5,548
Maintenance Expense-Buildings	3,021	1,733	4,033	8,787
Miscellaneous Expenses	62	44	113	220
Payroll Exp- Hourly Employee	139,588	135,092	136,610	411,291
Payroll Exp- Salaried Employee	10,742	10,742	10,742	32,225
Payroll Exp- Video Department	183	149	178	509
Payroll Exp- Truck Drivers	100,000	102,000	104,000	306,000
Payroll Tax Paid FICA	10,007	9,672	9,708	29,387
Payroll Tax Paid Medicare	1,977	1,920	1,945	5,842
Payroll Tax Paid SUTA	2,498	2,398	2,204	7,100
Payroll Tax Paid FUTA	331	261	283	875
Postage	503	439	558	1,501
Promotional Expense	-857	-645	-405	-1,907
Lease Equipment	52,000	52,000	52,000	156,000
Rent or Lease Expense	10,701	11,241	11,241	33,184
Repairs Expense - Equipment	1,775	5,196	7,329	14,300
Rent Expense - Buildings	90,240	90,240	90,240	270,720
Repairs Expense - Buildings	1,200	1,200	1,200	1,200
Spoilage	2,677	3,846	3,749	10,271
Supplies - Store Uses	13,485	3,079	5,320	21,884
Supplies - Office	323	-36	1,223	1,510
Taxes - Property		29,471	362	29,833
Telephone Expense	2,955	2,549	3,815	9,319
Testing Expenses	1,510	112	3,772	5,394
Thefts/Drive Offs	210	20	524	754
Trash Removal	459	667	360	1,486
Travel Expense Ground	1,496	1,754	1,343	4,592
Travel Expense Accomdations	117		100	216
Travel Expense Meals 50%			114	114
Trucking Expense - Fuel	60,000	60,000	60,000	180,000
Trucking Expense - Repairs	25,000	25,000	25,000	75,000
Utilities - Electric	24,519	30,100	24,653	79,272
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TOTAL OPERATING EXPENSE	676,753	661,802	658,732	1,997,287
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NET INCOME FROM OPERA	294,804	143,138	184,296	622,238
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OTHER INCOME & EXPENSE				
Administrative Income	15,000	15,000	15,000	45,000
ATM Income	1,100	1,275		2,375

Other Income	5,122	7,186	6,227	18,535
Administrative Fees	0	0	0	0
Interest Expense	0	0	0	0
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TOTAL OTHER INCOME & EXF	21,222	23,461	21,227	65,910
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NET INCOME (LOSS)	316,027	166,599	205,523	688,148